Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises

"Overview of the Public Company Accounting Oversight Board"

June 24, 2004

Less than one year ago, this Committee held a hearing entitled "Accounting under Sarbanes-Oxley: Are financial statements more reliable?" That was the first time that our distinguished witness, William McDonough, appeared before Congress as chairman of the Public Company Accounting Oversight Board.

I am pleased to report that, due in no small part to his exemplary leadership, and that of the other Board members, the answer to the question we posed nine months ago appears to be "yes."

While the problems that led to the passage of the Sarbanes-Oxley Act nearly two years ago have by no means disappeared, the Act's wide-ranging corporate reforms and the effective actions of the PCAOB have helped to restore the faith of America's investors.

In his brief tenure, Chairman McDonough has transformed the Board – the centerpiece of Sarbanes-Oxley – into a rigorous, effective, and highly respected overseer of public accounting firms. The Board has spread a little fear, and Chairman McDonough has hit the proper tough-but-fair tone, in my estimation. He has listened to practical implementation problems and has worked to ease them, provided it does not interfere with Sarbanes-Oxley or the PCAOB's mission. The PCAOB has been a vast improvement in accounting industry regulation.

We will learn today about the inspection process that the Board began during its start-up year of 2003 and the auditing and professional practice standards that the Board has both adopted and proposed. I would particularly like to commend Chairman McDonough for his accommodations on foreign firm inspections.

I am pleased that the Securities and Exchange Commission recently approved the Board's final internal control standard as required by Section 404 of Sarbanes-Oxley. The internal control requirement of the Act has been the focus of some criticism from sectors of the business community. My view is that these costs, although never pleasant, are offset by great benefits.

In implementing the protections of Section 404 and, indeed, all of Sarbanes-Oxley, it is essential that regulators seek to minimize the cost of compliance as much as possible, consistent with the Act's goals. The Board has done exactly that – and we will learn more about that today. At the same time, we must keep the appropriate perspective. According to one report, there were 323 companies that restated their results last year. In 58 of those instances, the outgoing accounting firm reported problems related to internal control. Clearly, the need for strong internal control has not diminished.

Equally important, I am pleased by reports of the positive effects of the internal controls requirements on public companies' business. General Electric's finance chief recently stated, "We have seen value in the [Section] 404 work. It helps build investors' trust and helps give them more confidence. We've gotten positive benefits from it." This is precisely the purpose of this requirement.

There is much more work to be done. But I remain confident that Chairman McDonough and his colleagues will continue to ensure that financial statements are more reliable.

I welcome you back, Chairman McDonough, and look forward to your testimony.

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